



**National Biodiesel
Board**
1331 Pennsylvania
Ave., NW, Suite 512
Washington, DC
20004
(202) 737-8801
www.biodiesel.org

**Testimony of Manning Feraci
Vice President of Federal Affairs, National Biodiesel Board
Before the U.S. House Committee on Small Business
September 11, 2008**

Chairwoman Velazquez, Ranking Member Chabot and Members of the Committee, I thank you for the opportunity to testify today on behalf of the National Biodiesel Board (NBB) about the importance of the biodiesel tax incentive to the many small businesses that comprise the U.S. biodiesel industry.

About NBB: NBB is the national trade association representing the biodiesel industry as the coordinating body for research and development in the United States. It was founded in 1992 by state soybean commodity groups who were funding biodiesel research and development programs. Since that time, the NBB has developed into a comprehensive industry association which coordinates and interacts with a broad range of cooperators including industry, government and academia. NBB's membership is comprised of biodiesel producers; state, national and international feedstock and feedstock processor organizations; fuel marketers and distributors; and technology providers.

Background and Industry Overview: Biodiesel is a diesel fuel replacement that is made from agricultural oils, fats and waste greases that meets a specific commercial fuel definition and specification. The fuel is produced by reacting feedstock with an alcohol to remove the glycerin and meet the D6751 fuel specifications set forth by the American Society for Testing and Materials (ASTM International). Biodiesel is one of the best-tested alternative fuels in the country and the only alternative fuel to meet all of the testing requirements of the 1990 amendments to the Clean Air Act.

Biodiesel is primarily marketed as a blended product with conventional diesel fuel, typically in concentrations up to 20%. It is distributed utilizing the existing fuel distribution infrastructure with blending most commonly occurring "below the rack" by fuel jobbers. Biodiesel is beginning to be distributed through the petroleum terminal system. To date, biodiesel is available in approximately 42 fuel distribution terminals. The biodiesel industry has committed funds to study the technical needs required for moving biodiesel through U.S. pipelines. Already, biodiesel is moved through pipelines in Europe and extending that capability in the U.S. would significantly increase biodiesel penetration in the U.S. diesel fuel market.

The biodiesel industry has shown steady growth over the last 15 years. In 2007, the industry produced 500 million gallons of biodiesel and is on pace to increase production above those levels in 2008. Today, there are 171 plants in operation with the capacity to produce more than

2.24 billion gallons of biodiesel and 60 new plants under construction or expansion, which will add an estimated new capacity of nearly 1.13 billion gallons.

Background on the Biodiesel Tax Incentive: The biodiesel tax incentive was enacted in 2004 as part of the American Jobs Creation Act (P.L. 108-357). The incentive was subsequently extended through December 31, 2008 as part of the Energy Policy Act of 2005 (P.L. 109-190). Thus, under current law, the incentive is set to expire at the end of calendar year 2008.

The biodiesel tax incentive is a \$1 per gallon blenders excise tax credit that can be claimed on biodiesel produced from virgin vegetable oils and animal fats. Biodiesel produced from yellow grease or second use oils, such as restaurant grease, qualify for a 50 cents per gallon excise tax credit. To qualify for the biodiesel tax incentive, the biodiesel must by statute meet both the ASTM D6751 fuel specification and the Environmental Protection Agency's (EPA) registration requirements under Section 211 of the Clean Air Act.

The blenders excise tax credit is claimed at the point where biodiesel is blended with conventional diesel fuel. Blenders are required to register with the Internal Revenue Service (IRS) to claim the incentive. The excise tax credit can be used to offset a blender's fuel excise tax liability. To the degree that the incentive exceeds excise tax liability, eligible taxpayers may claim a refund from the IRS. This structure accomplishes the incentive's policy objective of helping to make biodiesel price competitive with conventional diesel fuel.

Biodiesel Tax Incentive Success Story: The biodiesel tax incentive has helped achieve the worthwhile policy goal of increasing the production and use of biodiesel in the U.S. In 2004, when the incentive was initially enacted, the U.S. produced 25 million gallons. In 2007, that number rose to 500 million gallons, and we anticipate that production will exceed that amount in the current year. The 500 million gallons of biodiesel produced in 2007 displaced 20 million barrels of petroleum.

Biodiesel Public Policy Benefits: There is a compelling public policy argument to be made to justify increased biodiesel production and use in the U.S., and the biodiesel tax incentive is an integral part of a sound public policy framework that will allow biodiesel to play a constructive role as part of the nation's overall energy strategy.

Biodiesel Reduces our Dependence on Foreign Oil: Biodiesel can play a major role in expanding domestic refining capacity and reducing our reliance on foreign oil. Increased use of renewables in the transportation sector can play a significant role in helping achieve the objective of displacing foreign petroleum with domestically produced renewable fuel. Merrill Lynch commodity strategist Francisco Blanch says that oil and gasoline prices would be about 15% higher if biofuel producers were not increasing their output.

The 500 million gallons of biodiesel produced in the U.S. in 2007 displaced 20 million barrels of petroleum, and increased production and use of biodiesel will further displace foreign oil. In addition, biodiesel is an extremely efficient fuel that creates 3.5 units of energy for every unit of fuel that is required to produce the fuel.

Biodiesel is Good for the Environment: Biodiesel is an environmentally safe fuel, and is the most viable transportation fuel when measuring its carbon footprint, life cycle and energy balance. The USDA/DoE lifecycle study shows a 78% reduction in lifecycle CO₂ for B100. 1 billion gallons of biodiesel will reduce current life cycle greenhouse gas emissions by 16.12 billion pounds, the equivalent of removing 1.4 million passenger vehicles from U.S. roads. In

2007 alone, biodiesel's contribution to reducing greenhouse gas emissions was equal to removing 700,000 passenger vehicles from America's roadways.

Biodiesel's emissions significantly outperform petroleum based diesel. Research conducted in the U.S. shows biodiesel emissions have decreased levels of all target polycyclic aromatic hydrocarbons (PAH) and nitrated PAH compounds, as compared to petroleum diesel exhaust. These compounds have been identified as potential cancer causing compounds.

Biodiesel is the only alternative fuel to voluntarily perform EPA Tier I and Tier II testing to quantify emission characteristics and health effects. That study found that B20 (20% biodiesel blended with 80% conventional diesel fuel) provided significant reductions in the total hydrocarbons; carbon monoxide; and total particulate matter. Typically, emissions of nitrogen oxides are either slightly reduced or slightly increased depending on the duty cycle of the engine and testing methods used. Research also documents the fact that the ozone forming potential of the hydrocarbon emissions of pure biodiesel is nearly 50% less than that of petroleum fuel. Pure biodiesel typically does not contain sulfur and therefore reduces sulfur dioxide exhaust from diesel engines to virtually zero.

Biodiesel helps preserve and protect natural resources. For every one unit of energy needed to produce biodiesel, 3.5 units of energy are gained. This is the highest energy balance of any fuel. Because of this high energy balance and since it is domestically produced, biodiesel use can greatly contribute to domestic energy security.

The Biodiesel Industry is Creating Green Jobs and Making a Positive Contribution to the Economy: In 2007 alone, the U.S. biodiesel industry contributed over \$4.1 billion to the nation's Gross Domestic Product (GDP) and supported 21,803 jobs. In addition, economic modeling suggests that a vibrant biodiesel industry will positively impact the U.S. economy in multiple ways. America's biodiesel industry will add \$26 billion to the U.S. economy between 2007 and 2012, assuming biodiesel growth reaches 1 billion gallons of annual production by 2012. Biodiesel production will create a projected 38,856 new jobs in all sectors of the economy and additional tax revenues from biodiesel production will more than pay for the federal tax incentives provided to the industry. Equally as important, it will keep billions of dollars in America that would otherwise be spent on foreign oil.

Extension of the Biodiesel Tax Incentive is Vital to the U.S. Biodiesel Industry: As was mentioned earlier in this testimony, the biodiesel tax incentive is set to expire on December 31, 2008. Expiration of the incentive would have a catastrophic impact on the U.S. biodiesel industry, and the NBB urges Congress to approve and the President to sign an extension of the incentive before the end of the year.

The biodiesel blenders excise tax is structured in a manner that helps make biodiesel price competitive with conventional diesel fuel. If the tax incentive is allowed to expire at the end of the year, the price of biodiesel will be significantly higher than petroleum diesel, thus significantly reducing demand and making it nearly impossible for biodiesel plants to produce fuel at a profit. Thus, it is safe to assume that if the biodiesel tax incentive lapses, biodiesel production in the U.S. will halt or at a minimum be severely curtailed, and the energy security, environmental, and job creation benefits that the nation realizes from biodiesel production will be lost.

Prior to Memorial Day, H.R. 6049 was approved by the U.S. House. The legislation would provide a one year extension of the biodiesel tax incentive. In addition, the legislation included changes to the incentive that enjoy the strong support of industry including:

- Provides \$1 per gallon incentive, regardless of feedstock used to produce biodiesel. This will encourage the expanded use of waste oils in fuel production and greatly simplify the administration of the tax incentive for both taxpayers and the IRS.
- Closes the so-called splash and dash loophole that allows foreign produced biodiesel to enter the U.S.; claim the U.S. biodiesel tax incentive; and then be sent to a third country for final use. There is no energy or tax policy justification for this sort of activity, and the NBB strongly supports closing this loophole.
- Properly defines co-processed renewable diesel as it applies to the renewable diesel tax incentive.

Both the Baucus/Reid and McConnell/Grassley energy and tax extenders packages that have been unveiled in the Senate contain similar biodiesel provisions as those contained in H.R. 6049.

For the sake of the biodiesel industry and the sake of America's need to achieve energy independence, the NBB urges Congress to extend the biodiesel tax incentive prior to adjournment. A lapse in the incentive will be a devastating setback to an industry that has the capacity to make a positive contribution in breaking our dependence on foreign oil.

Again, Chairwoman Velazquez, Ranking Member Chabot and Members of the Committee, I sincerely appreciate the opportunity to testify before you today, and would be more than happy to answer any questions you may have.